

AUDIT REPORT
RETIREMENT MEDICAL TRUST
FOR THE COUNTY OF SAN BERNARDINO
CALIFORNIA
FOR THE YEAR ENDED DECEMBER 31, 2004

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder

**County of San Bernardino
Retirement Medical Trust**

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Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

December 9, 2005

Andrew Lamberto
Director of Human Resources
157 West Fifth Street, First Floor
San Bernardino, CA 92415-0440

**SUBJECT: AUDIT OF THE COUNTY OF SAN BERNARDINO'S RETIREMENT
MEDICAL TRUST FOR THE YEAR ENDED DECEMBER 31, 2004**

Introductory Remarks

Per your request, we have completed an audit of the County of San Bernardino's Retirement Medical Trust for the year ended December 31, 2004.

Auditor's Report

We have audited the accompanying statements of net assets available for benefits of the County of San Bernardino's Retirement Medical Trust (Trust) as of December 31, 2004, and the related statement of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

AudRpt/Andrew Lamberto, Director
Retirement Medical Trust
December 9, 2005
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In our opinion, the financial statements referred to above present fairly, in all material respects, the Trust's net assets available for benefits and the changes in net assets available for benefits for the year ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD & A) is not a required part of the basic financial statements but is supplementary information required by accounting principals generally accepted in the United States. The County's management has elected to omit this information.

Respectfully Submitted,

Larry Walker
Auditor/Controller-Recorder

By:

Howard M. Ochi, CPA
Chief Deputy Auditor

Copies to:

Margaret Smith, Assistant Director of
Human Resources
Rafael Viteri, Supervisor of Administrative
Services II
Doug Moreno, Human Resources
Section Manager

Quarterly copies to:

County Administrative Office
Board of Supervisors
Grand Jury (2)

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Audit Report Distributed: 6-19-06

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**County of San Bernardino
Retirement Medical Trust
Statement of Net Assets Available for Benefits
December 31, 2004**

ASSETS

Cash and cash equivalents	\$ 4,882,723
Receivables:	
Interest	24,742
Employer contributions	<u>8,684</u>
Total receivables	<u>33,426</u>
Total assets	<u>4,916,149</u>
Net assets available for benefits	<u>\$ 4,916,149</u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Retirement Medical Trust
Statement of Changes in Net Assets Available for Benefits
December 31, 2004**

ADDITIONS

Additions to net assets attributed to:

Interest	\$ 90,686
Employer contributions	154,661
Sick leave contributions	<u>2,118,344</u>

Total additions	2,363,691
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DEDUCTIONS

Deductions from net assets attributed to:

Benefits paid to participants	402,987
Plan to plan transfers	21,164
Disability retirements	90,661
Withdrawals	<u>25,358</u>

Total deductions	540,170
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Net assets available for benefits:

Beginning of year	<u>3,092,628</u>
End of year	<u>\$ 4,916,149</u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Retirement Medical Trust
Notes to the Financial Statements
December 31, 2004**

NOTE 1: DESCRIPTION OF PLAN

The following description of the County of San Bernardino's Retirement Medical Plan (the Plan) provides only general information. Participants should refer to the Plan Agreements for a more complete description of the Plan's provisions.

1. *General* – The Plan is a defined contribution plan covering employees with ten or more years of participation in the San Bernardino County Employees' Retirement Association in the following occupational units:

- Safety Management,
- Supervisory
- Exempt
- Elected officials.

The Plan is not subject to the provisions of the Employee Retirement Income Security Act (ERISA).

2. *Contributions* – Biweekly, the County contributes one-half of one percent of an eligible employee's salary and one percent of an elected official's salary to the Plan. At retirement, all eligible employees are required to contribute their unused sick leave balances to the Plan. On the employee's behalf, the County contributes the cash value based on a cash value formula that is determined by the balance of the employee's sick leave.
3. *Participant Accounts* – Each participant's account is credited with the County's contribution, interest and charged with qualified medical expenses.
4. *Vesting* – A participant's account in the Plan shall be vested upon initial deposit and non-forfeitable at all times.
5. *Payment of Benefits* - Each participant's account is used to pay for health care expenses as defined in Internal Revenue Code Section 213(d)(1). The Plan's obligations are limited to the value of the participant's contributions and earnings.
6. *Auditor/Controller-Recorder* -The elected County Auditor/Controller-Recorder is a non-voting member of the Plan's Board by virtue of his elective office. The duties of the Auditor/Controller-Recorder as an ex-officio member of the Board include being in charge of annually auditing the Plan and its Accounts.
7. *Distributions* – Upon retirement from the County the cash value of an eligible employee's unused sick leave balances are contributed to the Plan. These funds are placed in a "pending" fund awaiting final determination of eligibility to participate in the Trust. When a retiree is deemed eligible these funds are transferred to the "inactive" fund where benefits will be paid. If a retiree receives a Disability Retirement, funds will be transferred back to the

**County of San Bernardino
Retirement Medical Trust
Notes to the Financial Statements
December 31, 2004**

Department and disbursed to the retiree accordingly. If it is determined that an employee was deemed eligible to participate in the Trust in error, these funds will be withdrawn from the Trust and disbursed to the retiree accordingly.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Plan's financial statements are prepared under the accrual method of accounting.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. Actual results could differ from those estimates.

Payment of Benefits

In accordance with generally accepted accounting procedures, benefits are recorded when paid as Benefits Paid to Participants.

NOTE 3: CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the Plan's account based upon the Plan's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of December 31, 2004.

NOTE 4: TAX STATUS

The Trust established under the Plan is qualified pursuant to Section 501 (c) 9 of the Internal Revenue Code, and, accordingly, the Trust's net investment income is exempt from income taxes. The Sponsor has obtained a favorable tax determination letter from the Internal Revenue Service dated April 2, 2002.

**County of San Bernardino
Retirement Medical Trust
Notes to the Financial Statements
December 31, 2004**

NOTE 5: SUBSEQUENT EVENTS

As of January 1, 2006, the Human Resources Department signed an Administrative Services Agreement delegating certain administrative responsibilities under the Retirement Medical Trust Plan to ING Life Insurance and Annuity Company (ILIAC). Under this agreement, ILIAC will be responsible for the following:

- a. Initial Employee Communication and Ongoing Reporting
- b. Claim Reimbursement Processing
- c. Inquiries
- d. Claim Reimbursement File
- e. Standard Reports

ILIAC does not assume fiduciary, administrative, or other responsibilities for compliance with any applicable federal or state statutes.